Concorp

ANNUAL
REPORT

YELLOWKNIFE BEAR

MINES LIMITED

FOR THE YEAR ENDED JUNE 30th

1976

Yellowknife Bear Mines Limited

DIRECTORS

HANS H. ESTIN, *Boston, Mass., U.S.A.*
J. H. GRAY, *Oakville, Canada*
LEWIS B. HARDER, *New York, N.Y., U.S.A.*
WILSON E. MCLEAN, Q.C., *Toronto, Canada*
R. G. PRICE, P.Eng., *Calgary, Canada*
W. E. REARDEN, *Toronto, Canada*
J. BRADLEY STREIT, *Toronto, Canada*
J. DOUGLAS STREIT, P.Eng., *Toronto, Canada*
A. E. MACKAY, P.Eng., *Toronto, Canada*

OFFICERS

J. DOUGLAS STREIT, P.Eng., President, *Toronto, Canada*
R. G. PRICE, P.Eng., Vice-President, *Calgary, Canada*
W. E. REARDEN, Secretary-Treasurer, *Toronto, Canada*
T. P. FISCHER, Assistant Secretary- Treasurer, *Toronto, Canada*

CONSULTING ENGINEER

L. G. PHELAN, M.A.Sc., P.Eng.

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY OF CANADA
88 University Ave., *Toronto, Ontario M5J 1T6*

GUARANTY TRUST COMPANY OF CANADA
311 - 8th Avenue West, *Calgary, Alberta*

REGISTRAR AND TRANSFER COMPANY
140 Cedar Street, *New York, N.Y., U.S.A. #10006*
15 Exchange Place, *Jersey City, N.J., U.S.A. #07302*

SOLICITORS

MCLEAN, LYONS AND KERR, *Toronto, Ontario*

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE, *Toronto, Ontario*
THE TORONTO-DOMINION BANK, *Toronto, Ontario*

AUDITORS

JOHNSON, RICKARD & COMPANY, *Toronto, Ontario*

HEAD OFFICE

360 Bay Street, 360 Bay Street, *Toronto, Ontario, Canada M5H 2W3*

YELLOWKNIFE BEAR MINES LIMITED

To the Shareholders,
YELLOWKNIFE BEAR MINES LIMITED:

The Directors of Yellowknife Bear Mines Limited are pleased to present the following report to the Shareholders describing the operations of their Company for the year ending June 30th, 1976.

FINANCIAL

The Schedule of Marketable Investments and Current assets as of June 30th, 1976 amounted to over eight and one-half million.

Your Company's Investment in Midcon Oil & Gas Limited as of June 30th, 1976 amounted to 73.80% of the issued stock of Midcon. The accompanying statement of income includes the consolidated operating results of Midcon Oil & Gas Limited for the period July 1, 1975 to June 30, 1976. The comparative figures shown for 1975 however, are not consolidated, but include the portion of earnings attributable to our equity interest as at June 30, 1975.

Dividend payments inaugurated in 1953 have been made by Yellowknife Bear in twenty-two of the last twenty-four years, and without interruption for the past eighteen years.

INVESTMENTS

Midcon Oil & Gas Limited

Midcon owns about 56 billion cubic feet of Natural Gas Reserves in the Medicine Hat and Etzikom districts of South Eastern Alberta and a 50% interest in South Alberta Pipelines Limited which transports Midcon gas from the Medicine Hat and Etzikom gas fields to market in Medicine Hat. Midcon gas reserves are all under contract to the City of Medicine Hat and to the Western Co-operative Fertilizer plant at Medicine Hat at fairly low prices. However, Midcon has recently held meetings with both customers in an effort to negotiate a substantial gas price increase.

Midcon currently receives about 33.5 cents/MCF (including export bonus payments) for gas sold to the City and 39.5 cents/MCF for gas sold to the Western Co-op. An expected export bonus boost plus, a 1.5 cents/MCF escalation in both contract prices should raise these prices to about 40 cents/MCF for City gas sales and 46.0 cents/MCF for Western Co-op gas sales by January 1, 1977. This is a great improvement over the prices of 11.5 cents/MCF and 17.5 cents/MCF respectively Midcon was receiving one year ag, but is still far below present average Alberta gas prices of $1.20/MCF and still further below projected average field prices of $1.40 per MCF expected by January 1, 1977.

The Province of Alberta recently set up a task force to study the depressed prices under certain domestic gas sales contracts, such as ours, and to recommend ways to raise these prices to average Alberta gas prices. Alberta evidently has an agreement with the Federal Government which prevents any legislative action to overcome this problem until March 31, 1977, but we are hopeful that at that time Midcon's gas prices will be raised to average Alberta field prices.

Inter-Rock Oil Co. of Canada Limited

This Midcon subsidiary owns a 12½% interest in 7 D-3 oilwells in the Erskine field, a 2.08333% interest in the unitized Buffalo Lake oilfield and a 0.28363% interest in the Nevis gas field all located in Central East Alberta. Inter-Rock Crude Oil sales prices increased from $8.00/bbl. to $9.05/bbl. on July 1, 1976 (before royalty and income tax) and the wellhead price of Nevis natural gas increased from 95 cents/MCF to about $1.20/MCF July 1, 1976. Further price increases for both oil and natural gas are scheduled for January 1, of 1977.

This increased natural gas price will make it economic to gather Buffalo Lake casinghead natural gas and pipeline it some 9 miles to the Nevis unit gas plant for processing and sale. This new gas pipeline will run right past a capped D-3 gas well in which Inter-Rock holds a 11.1111% interest, so it should also be possible to place this well on production. Inter-Rock and Hunt Oil are now testing this D-3 gas well in preparation for placing it on production.

PETROLEUM INDUSTRY OUTLOOK

During the past three years Canadian wellhead prices of crude oil have increased from about $3.80 per barrel to $9.05 per barrel but increased Provincial Royalties and Federal taxes have taken all but 70 cents per barrel of this increased revenue. As a result, the net production revenue increase has barely covered the cost of inflation. Natural gas prices in Alberta on the other hand have increased from 13.5 cents/MCF to about $1.20/MCF and a further price increase is scheduled next December. About half of this gas price increase has been allowed to flow through to the producers. Thus, while the economics of wildcatting for oil in Canada are still marginal, the potential for profitable exploration for natural gas, particularly in Alberta is now excellent. Your company has therefore concentrated recently on Natural Gas in Alberta but has also put some emphasis on Oil and Coal exploration in the United States where tax and royalty rates, particularly for oil are much lower than those in effect in Canada.

Brazeau River Area — Alberta

Map #2 shows the location of Crown Reserve Natural Gas License #386 which was purchased by Yellowknife Bear and partners at an August 21, 1975 Alberta Crown Sale for $2,730,000.00. The adjacent Gas Licenses #387 and #388 purchased at the same Crown Sale by the team of Dome Petroleum and Hudson's Bay Oil & Gas for $3,090,000.00 and $4,501,000.00 respectively are also shown on this map. Your Company has a 10% interest in Licence #386 and our partners include Pembina Pipeline, Western Decalta Petroleum, Canadian Export Gas & Oil, Can Tex and Aztec.

We have drilled three excellent Shunda gas wells on this reservation and we are now negotiating a gas sale contract for this gas with Trans Canada Pipelines Limited. Once we agree on contract reserves with Trans Canada, we will build a gas processing plant to remove the Sulphur, Butane, Propane, etc., from the gas. We expect to put this gas on production in late 1977 by which time the contract gas price will be at least $1.40/MCF.

Northwestern Alberta

Yellowknife Bear and partners purchased 21,444 acre Crown Reserve Natural Gas Licence #438 at an Alberta Crown sale held March 19, 1976, for a total bonus of $350,677.80. Yellowknife Bear holds a 10% interest and our subsidiary Midcon Oil & Gas Limited a 5% interest in Licence #438 which is located some 30 miles east and slightly south of the Rainbow Lake oilfield. Licence #438 has producing shallow gas wells (about 2000 ft. deep) on three sides and is within a few miles of gas pipe line facilities. After the muskeg in this area freezes up this winter our group plan to drill 10 to 20 gas wells which should produce dry sweet gas that will require only dehydration and compression to market so it should be possible to start marketing some of this by the Spring of 1977.

South Ricinus

In 1972 Yellowknife Bear participated in the drilling of a wildcat well, Albany Amoco Ricinus 1-15-34-8-W5M which encountered a thick D-3 Devonian reef and had a calculated absolute open flow of 460 million cubic feet of sour gas per day. A follow-up well, drilled about one mile northeast, encountered reef 200 feet below the reef top at the discovery well, and below the water line. Yellowknife Bear holds an 8.33% interest in the discovery well to pay out of costs of that well after which your Company's interest reverts to 2.5%. Yellowknife Bear also has a 2.5% interest in 3,200 acres of land and 3.33% interest in a further 3,840 acres of land in this same area.

Aquitaine Company of Canada Limited, who operate the Ram River gas processing plant some 20 miles northwest of our Ricinus well have purchased the interest of all participants in the well except Coseka Resources and Yellowknife Bear. Your Company decided to retain its interest in this area. We are hopeful that we can now work out a program with Aquitaine to build a 22 mile pipeline from our well to the Ram River gas plant so that we can process and market gas from our South Ricinus gas discovery. Recent discussions with Aquitaine however, have indicated that fields now connected to the Ram River plant will keep it operating at capacity until 1978, but at that time some surplus plant capacity should be available.

Cold Lake

Yellowknife Bear holds 3,360 acres of Petroleum and Natural Gas Lease at Cold Lake, Alberta, just south of the lease block on which Imperial Oil is now operating a pilot steam injection secondary recovery project licenced to produce 4500 barrels per day of heavy oil. Yellowknife Bear has pooled its Cold Lake leases with adjacent leases of Great Plains Development Company of Canada (now Norcen, see Map #1) and we hold 65% interest in the pooled acreage. Norcen and Yellowknife Bear have also joined,by way of a cash contribution, the Imperial Oil Steam Injection Project to the North of our leases and are now receiving data from this project.

Mobil Oil, who hold a lease block just south of our pooled Cold Lake leases, recently agreed to join Yellowknife Bear and Norcen in funding an Intercomp three-dimensional computer program study of the Cold Lake reservoir. This computer study will simulate the flow of three phases (water, gas and liquid hydrocarbon oil) and will be based on data obtained in a previous Cold Lake Pilot Project in which all three companies participated. We expect this study to indicate optimum well spacing patterns, length of cycle for huff and puff steam injection and optimum depth and thickness of zone for steam injections.

Yellowknife Bear has participated in two Cold Lake pilots which produced over 100,000 bbls. of oil by steam injection secondary recovery processes. Based on this experience, we believe that Cold Lake area can produce large amounts of crude oil profitably from proven reserves at prices below current world crude oil prices. To do so, however, will require enormous amounts of capital investment in steam generators, steam injector facilities and hydro forming or other facilities to upgrade the heavy oil, and pipeline transportation facilities.

In Alberta today, the combined effect of Provincial royalties and the Federal export tax results in over 2/3 of the present world price of $11.70 per barrel of crude oil coming off the top and flowing to Governments and not to oil producers. The effect of this top-heavy economic rent by both Governments has made production of Cold Lake oil uneconomic at the present time. The Management of Yellowknife Bear believe that sometime within the next few years Canadian Governments will relax taxes and royalties sufficiently to make Cold Lake oil production economic rather than paying $12.00 plus per barrel for increasing quantities of foreign oil.

The Yellowknife Bear and Imperial Oil leases blanket an area which contains the thickest known section of oil bearing sand in the Cold Lake area. Thus, when the domestic wellhead price of crude oil makes recovery of Cold Lake oil reserves economic, Yellowknife Bear will have one of the best sites for steam injection secondary recovery operations in the entire district, and at that time we will be ready with a full scale development program at Cold Lake.

Operations in the United States

Yellowknife Bear early this year agreed to pay 5% of a 20,000 foot wildcat in eastern Utah, to earn a 2½% interest in the well and a 51,000 acre lease block on which the well is located. The well — Moroni #1 is being drilled in partnership with Hanson Oil Corp., Smokey Oil, Franklin Oil Co., and Ashton and Fair of Roswell, New Mexico, plus Alberta Eastern Gas Ltd. and Yellowknife Bear from Canada on a Phillips farmout. This deep test well is on an excellent seismic feature on the "Utah hingeline" and is now drilling below 5000 feet.

Yellowknife Bear holds a 31.67% interest in 51,000 acre oil & gas lease block in Carter County, Montana which we expect to farmout for evaluation drilling during the next year.

Your Company also holds a 25% interest in a 280 acre 20 year coal lease in Gunnison County, Colorado which we have had evaluated by the John T. Boyd Company, Mining Consultants of Denver. The Boyd report indicates our lease and adjacent unleased Federal lands contain large reserves of Coking Coal and we are currently holding discussions with various Companies regarding the mining of these coal reserves.

Arctic Islands

Yellowknife Bear and its subsidiaries Midcon and Inter-Rock held a 50% interest in 582,992 acres of Federal petroleum and natural gas permits in the Canadian Arctic Islands until August 9, 1976. These permits had been carried for 8 years at no cost to us through a farmout to Sun Oil and Associates. On the August 9, 1976 renewal date, we surrendered our 50% interest in 224,013 acres of permit but through a further farmout to Sun Oil arranged to have the remaining 358,979 acres of permit carried for another 2 years in return for granting Sun Oil an option to reduce our interest in the permits to 40% by carrying the permits to their August 9, 1980 renewal date. Work commitments to keep these permits in good standing to 1980 amount to $2.00/acre (50 cents/year) or a total expenditure by Sun Oil of $717,958 if they exercise their option and carry all permits the full four years. In any event, Sun Oil is committed to spend $358,979 to carry the permits for the next 2 years.

FUTURE OUTLOOK

When the various gas projects outlined above are all placed on production, and when Midcon gas prices reach average Province of Alberta sales price levels, Yellowknife Bear and subsidiaries will net oil and gas production income (after royalties and lifting costs) of well over one million dollars per year. Since the Company has no debt this cash flow, plus other existing assets should easily enable us to finance the development of our enormous Cold Lake heavy oil reserves when the price of crude oil to the producers (after taxes and royalties) is raised sufficiently to make these reserves economic. We believe this will take place within the next five years.

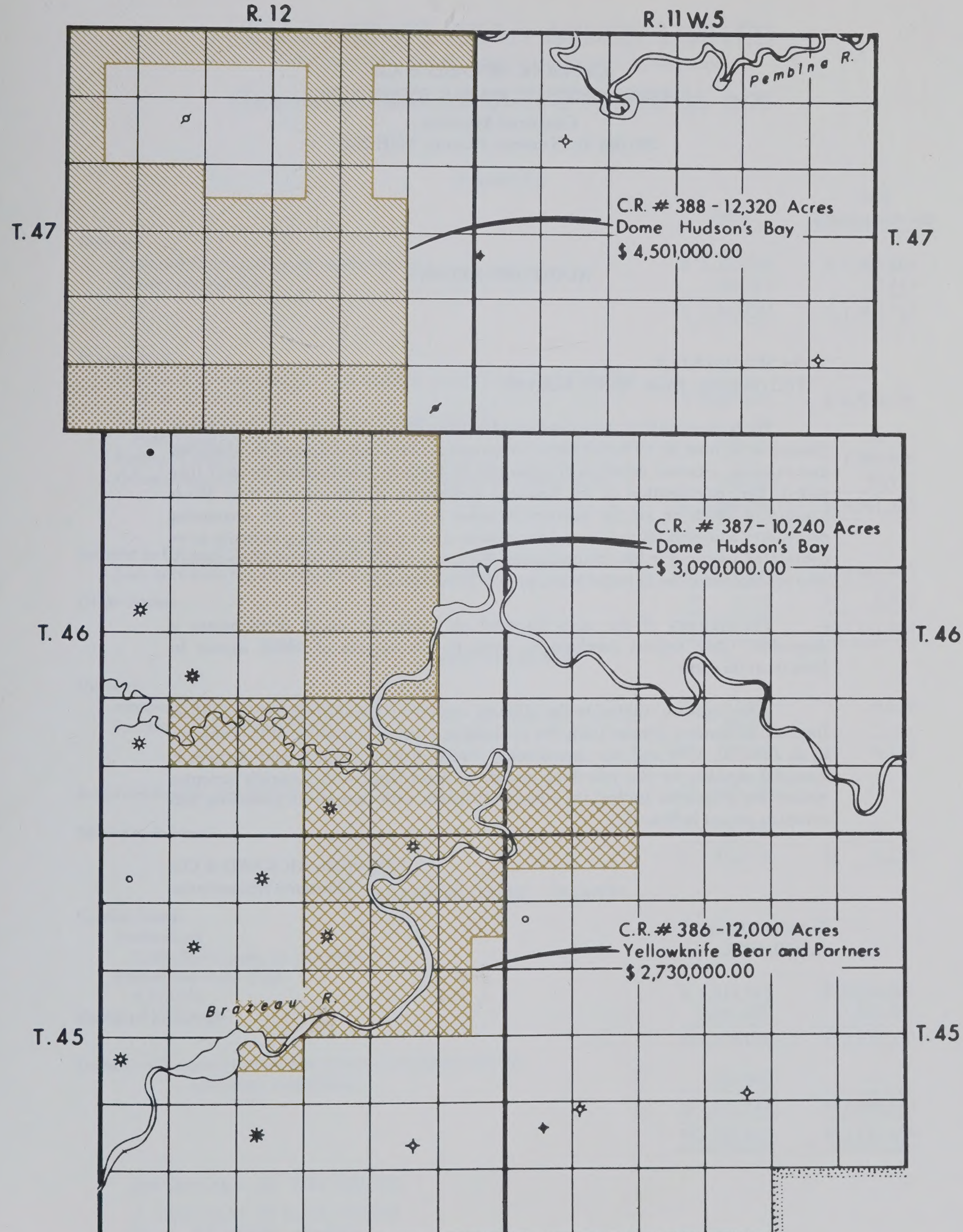
On behalf of the Board of Directors,

J. DOUGLAS STREIT,
President.

Toronto, Ontario.
August 30th, 1976.

Imperial Test Project
ETHEL LAKE
Yellowknife Bear Test Project
HILDA LAKE
Cold Lake Indian Reserve No. 1498
YELLOWKNIFE BEAR
AMERADA
NORCEN
NORTHWESTERN REFINING-McWOOD CORPORATION
IMPERIAL OIL
MOBIL OIL
TRIAD-BP

MAP 1



BRAZEAU RIVER REGION OF CENTRAL WEST ALBERTA

MAP 2

JOHNSON, RICKARD & CO.
JOHNSON, STEWART, BOURNE, BROWN & CO.

Chartered Accounts
390 Bay St., Toronto, Canada M5H 2R6

AUDITORS' REPORT

To the Shareholders of
YELLOWKNIFE BEAR MINES LIMITED.

We have examined the consolidated balance sheet of Yellowknife Bear Mines Limited as at June 30, 1976 and the accompanying consolidated statements of income and expense, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Yellowknife Bear Mines Limited of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statement of the subsidiary.

The recovery of the costs incurred on properties under development is dependent upon various development projects, the success of which cannot be forecast at this time.

In our opinion, subject to the ultimate recovery of the above noted costs, these financial statements present fairly the consolidated financial position of the company as at June 30, 1976 and the consolidated results of its operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as set out in Note 1(c).

JOHNSON, RICKARD & CO.
Chartered Accountants.

Toronto, Ontario.
July 30, 1976.

YELLOWKNIFE BEAR MINES LIMITED

(Incorporated under the Laws of the Province of Ontario)

Consolidated Balance Sheet as at June 30, 1976

ASSETS

	1976	1975 Unconsolidated
Current		
Cash and interest bearing term deposits	$ 1,257,035	$ 1,402,183
Sundry receivables	206,062	92,549
	$ 1,463,097	$ 1,494,732
Investments		
Marketable securities, at cost (quoted market value $7,134,898) (1975—$8,500,458)	$ 4,987,047	$ 6,839,554
Equity in shares and debentures of South Alberta Pipe Lines Limited	366,102	—
Equity in shares of Midcon Oil & Gas Limited	—	1,281,036
Other companies, at cost less valuation adjustments (Note 2)	36,149	40,973
	$ 5,389,298	$ 8,161,563
Interest in Oil and Natural Gas Properties		
Less accumulated amortization and depreciation	$ 5,144,849	$ 2,449,497
Other Assets	$ 9,173	$ 5,877
	$12,006,417	$12,111,669

LIABILITIES

	1976	1975 Unconsolidated
Current		
Accounts payable and accrued liabilities	$ 62,603	$ 76,139
Income taxes payable (Note 3)	56,985	—
	$ 119,588	$ 76,139
Deferred Income Taxes (Note 3)	185,250	—
Minority Interest	650,438	—
	$ 955,276	$ 76,139

SHAREHOLDERS' EQUITY

	1976	1975 Unconsolidated
Capital Stock		
Authorized		
5,000,000 shares, no par value		
Issued and Fully Paid		
4,814,041	$ 4,814,041	$ 4,814,041
Retained Earnings	6,561,997	7,221,489
	$11,376,038	$12,035,530
Deduct—Company's pro rata interest in its shares held by subsidiary companies	324,897	—
	$11,051,141	$12,035,530
	$12,006,417	$12,111,669

ON BEHALF OF THE BOARD

J. DOUGLAS STREIT, Director
W. E. REARDEN, Director

YELLOWKNIFE BEAR MINES LIMITED

Consolidated Statement of Retained Earnings
For the Year Ended—June 30, 1976

		1976	1975 Unconsolidated
Balance — Beginning of Year		$7,221,489	$7,396,555
Add — Income for the year		—	210,057
		$7,221,489	$7,606,612
Deduct — Loss for the year		$ 281,976	$ —
— Dividends paid	$385,123		
Less: Adjustment on consolidation	7,607	377,516	385,123
		$ 659,492	$ 385,123
Balance — End of Year		$6,561,997	$7,221,489

Notes to the Consolidated Financial Statements
For the Year Ended—June 30, 1976

NOTE 1: **ACCOUNTING POLICIES**

(a) **Basis of Consolidation**

The accompanying financial statements consolidate the accounts of the company and its subsidiary Midcon Oil & Gas Limited. They do not include the accounts of subsidiary companies whose assets consist principally of unpatented and unproductive mining properties for which shares of the capital stock of the subsidiaries have been issued at varying prices. It is the opinion of the company's directors that consolidation of the accounts of these companies would not truly reflect the position of the company's affairs. These subsidiaries are carried at cost of $5 and are included in other investments (Note 2).

(b) **Investments**

Marketable securities are carried at cost. Investments in other companies are carried at cost, less write-downs for declines in market value where appropriate.

The 50% investment in South Alberta Pipe Lines Limited is owned by Midcon Oil & Gas Limited and is carried on the equity basis.

(c) **Oil and Natural Gas Properties**

The company records as an expense all exploration incurred until such time as it is decided to drill. All costs incurred subsequent to commencement of the drilling are capitalized as oil well development and equipment costs. Leases and well costs are carried at cost and are written off when the leases are abandoned or when the leases are not considered to have a value equivalent to their cost.

The cost of productive leases and related development and equipment costs are amortized over the period of expected productivity. This is a change in accounting policy. In prior years, in Yellowknife Bear Mines Limited, all oil revenue in excess of exploration expenses was applied against well development and equipment costs. If this change had not been made, the loss for the year would have been increased by $259,745 to $541,721. If this policy had been applied in 1975 the income would have increased by approximately $160,000 to $370,057.

NOTE 2: INVESTMENTS IN OTHER COMPANIES

Shares	Cost	Allowance for Decline in Value	Carrying Value
Rich Group Yellowknife Mines Limited	$ 41,870	$ 23,289	$ 18,581
Yellorex Mines Limited	115,200	103,650	11,550
Pickering Metal Mines Ltd.	14,726	14,726	-
Sundry advances and other investments	6,018	-	6,018
	$177,814	$141,665	$ 36,149

NOTE 3: INCOME TAXES

The provision for current and deferred income taxes arises from the consolidated operations of Midcon Oil & Gas Limited.

No provision was required for income taxes on the operating results of Yellowknife Bear Mines Limited due to the following:

(a) Dividends from Canadian Corporations and equity in the income of Midcon Oil & Gas Limited are not taxable income.

(b) Exploration, development and lease costs are added to the accumulated development and lease costs allowable under Section 66 of the Income Tax Act and sufficient accumulated costs are claimed to eliminate taxable income. At the year end, book value of development and lease costs were less than the total expenses available under Section 66 which may be applied against future taxable income.

NOTE 4: STATUTORY INFORMATION

The aggregate remuneration paid to directors and senior officers amounted to $76,450 (1975 - $59,300).

NOTE 5: General and administrative expenses include the following:

	1976	1975
Directors' fees	$ 14,200	$ 2,300
General and office	22,928	12,812
Interest	14,483	-
Legal and audit	35,587	10,719
Rent and office services	26,211	12,377
Salaries - management and office	110,544	71,190
Shareholders' reports and expenses	17,026	13,945
Transfer and registrar expense	27,804	23,904
	$268,783	$147,247

The 1976 figures includes $73,092 arising from the consolidated operations of Midcon Oil & Gas Limited.

NOTE 6: As a result of an offer made on July 28, 1975, the company acquired 1,090,746 shares of Midcon Oil & Gas Limited for a cash consideration of $1,119,063. This purchase increased its holdings in Midcon Oil & Gas Limited from 2,082,470 shares (48.3%) to 3,173,216 shares (74%).

The accompanying statement of income includes the consolidated operating results of Midcon Oil & Gas Limited for the period July 1, 1975 to June 30, 1976.

There follows a condensed summary of the consolidated financial position of Midcon Oil & Gas Limited as at July 1, 1975:

Total assets	$2,636,123
Total liabilities	$ 85,620
Working capital	$ 416,449
Minority interest	$ 156,776

YELLOWKNIFE BEAR MINES LIMITED

Consolidated Statement of Income and Expenses
For the Year Ended—June 30, 1976

	1976	1975 Unconsolidated
Income		
Participation in Oil Revenue after deducting royalties and production expenses	$867,597	$289,967
Deduct—Oil and gas exploration expenses	236,697	108,685
	$630,900	$181,282
Deduct—Depreciation and amortization (Note 1(c))	78,990	181,282
	$551,910	$ —
Equity in Income of Midcon Oil & Gas Limited	$ —	$ 35,684
Exploration and Development Expenses—Mining	$ 95,019	$ 18,702
Investment Income		
Dividends received from Canadian Corporations	$113,623	$145,788
Dividends received from Foreign Corporations	36,784	54,829
Interest earned	113,020	196,872
Profit on foreign exchange	916	101,833
Capital gain (loss) on sale of investments	(518,203)	73,133
	($253,860)	$572,455
General and Administrative Expenses (Note 5)	$268,783	$147,247
Abandoned Wells and Mining Properties	$ —	$232,133
Income (Loss) Before Income Taxes, Minority Interest and Extraordinary Items	($ 65,752)	$210,057
Current income taxes (Note 3)	$ 48,985	$105,028
Deferred income taxes (Note 3)	114,250	—
Minority interest in income of subsidiaries	52,989	—
	$216,224	$105,028
Net Income (Loss) Before Extraordinary Item	($281,976)	$105,029
Extraordinary item		
Recovery of income taxes due to application of prior years' exploration costs and losses	—	105,028
Net Income (Loss)	($281,976)	$210,057
Earnings Per Share		
Income (loss) before extraordinary item	(5.8¢)	2.2¢
Net income (loss)	(5.8¢)	4.4¢